



**FINANCIAL SERVICES KNOWLEDGE GENERATION**

Contract No. GEG-I-01-02-00013; Task Order 1

**Quarterly Progress Report #4**  
**July 1 – September 30, 2004**

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in collaboration with

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## I. PROJECT OBJECTIVE

Through the Knowledge Generation task order, USAID's Microenterprise Division has contracted the Chemonics Accelerated Microenterprise Advancement Project (AMAP)/ Financial Services (FS) IQC Consortium to conduct research, establish best practices and create new tools and strategies to further the field of microfinance. The Chemonics Consortium is generating knowledge that will help move the microfinance field forward in its efforts to extend efficient, sustainable and quality financial services to the poor. This new knowledge will also help increase the capacity of the Economic Growth, Agriculture, and Trade Bureau/Office of Microenterprise Development (EGAT/MD) and its partner USAID Missions to design and strengthen the implementation and monitoring/evaluation of USAID-supported microfinance projects.

The task order includes three primary components: *Component 1: Core Knowledge Generation* encompasses the majority of activities carried out under this Task Order and will form part of a three year knowledge generation agenda to be developed in collaboration with the contractors and implemented under an annual workplan; *Component 2: Short Term Technical Services* includes short-term technical services and training activities specified by technical directions provided by the USAID/MD office; *Component 3: Knowledge Management/Collaboration* allows each of the contractors to support knowledge generation, synthesis and cross-fertilization with the Financial Services sector of AMAP as well as across the other two sectors, Enabling Environment and Business Development Services. To date, USAID has obligated \$1,758,000

## II. QUARTERLY ACTIVITIES

### A. Progress on Knowledge Generation Research Topics

#### A1. Access to Private Capital

Activities this quarter focused on Workplan activity B1 - MFI Investment Context, Trends and Potential (the Context Paper). Actual work has focused on two main activities:

- 1) Context Paper research; and
- 2) Stakeholder network development.

#### *Progress on Context Paper*

Marc de Sousa-Shields and Cheryl Frankiewicz completed a draft of Transitions To Private Capital Context Paper late August 2004. This draft was circulated to three reviewers for advice on structure and argument. Reviews were received by mid September 2004 and integrated into the draft by the end of September. The draft was then circulated to three more reviewers with the request for strong critical input. Contributions to the paper included a brief on "Financing Options" by Eileen Miamidian and "Regulatory Barriers to Investing in Microfinance" by Dr. Jens Reinke of IRIS and "Benchmarking and MFI Finance Pricing Models" by Joss Vander Steern. In addition, Terrance Miller, now with USAID/EGAT, wrote a paper comparing community banks in the US to MFIs. This paper helped to inform the Context Paper. Final comments are expected by mid October with the draft paper being submitted to USAID by the end of October.

A stakeholder list service has been established but not yet activated. It will be activated once the Context Paper is approved, possibly in November. A list of over 100 MFI professionals will be invited to participate.

### *Project Leverage*

Marc de Sousa-Shields moderated a panel at the IADB annual Microfinance conference in September 2004. He has also been asked to participate as a speaker in two upcoming conferences on the topic, one sponsored by KfW in Berlin and the other by COPEME in Peru. Enterprising Solutions is currently guest editing an edition of the MicroBanking Bulletin focusing on Financing Microfinance Institutions, scheduled for publication in late 2004. Brad King and Joss Vander Steern of Enterprising Solutions will write a related paper on benchmarking MFIs for the MicroBanking Bulletin.

## **A2. Legal and Regulatory Framework**

From mid-July to the end of September, the Legal and Regulatory Self-Assessment Toolkit research largely focused on preparing for country case studies, travel for field research in Brazil and Georgia and the write-up of the resulting case studies.

### *Fieldwork*

Dr. Jens Reinke and Kate Druschel scheduled and prepared for both the Brazil and Georgia case studies. Kate Druschel prepared country-level literature reviews in preparation for country case studies in Brazil and Georgia. Mr. Jacques Trigo, the Chemonics consultant for the Brazil case study, was briefed on the purpose and strategy of the trip. He subsequently developed his itinerary and visited the country independently. The background research for Dr. Reinke and Ms. Druschel reviewed existing banking laws and regulations.

Travel to Brazil was undertaken between mid-August and early September. The trip to Georgia took place during the second half of September. In both countries, meetings were held with financial service providers, regulators, trade associations and public stakeholders in the microfinance sector. Such stakeholders included banks, licensed non-bank financial institutions and other organizations offering financial services – not only microfinance, but also mainstream banking products – as well as NGO-type microfinance institutions. In Brazil, Dr. Reinke attended a conference on microfinance regulation and used the opportunity to interview a large number of NGOs, regulators and lawyers. In Georgia, Dr. Jens Reinke and Kate Druschel further briefed the USAID office.

### *Country Case Studies*

Following the return from Brazil, a draft country report was submitted to Chemonics, edited and forwarded on to Dr. Anicca Jansen of USAID. Dr. Jansen had a few questions, which the team is addressing before submitting the draft country report on Georgia. Discussions are on-going for the third and fourth case studies.

### *Outlook*

Two proposed countries for the third and fourth case study are currently under discussion, Philippines and Mexico. It is expected that the field work will be resumed near the end of the next quarter.

### A3. Measuring Outreach

Work on the “Measuring Outreach” project accelerated during the fourth quarter. Dr. Gary Woller, Research Director and primary researcher, conducted an exhaustive review of the literature, both academic and practitioner, on social performance measurement (SPM). The purpose of the literature search was to determine what was being done in this area in sectors other than microfinance and to derive lessons learned that were relevant to this project. It turns out that there is a rich literature on this topic, and there are multiple initiatives, many of them of global scope, working in the area of social accounting. Ironically, perhaps, most progress in this area has been made in the private sector. Dr. Woller reviewed approximately 50-60 documents total, several of which had substantial relevance to microfinance.

After concluding the literature review, Dr. Woller spent the remainder of the quarter writing up the Conceptual Framework Paper. The purpose of this document was to describe at length the context and rationale for social performance measurement, describe alternative SPM frameworks and distill their key lessons and articulate criteria for selecting an SPM framework. It also demonstrated how the Six Aspects of Outreach framework satisfied these criteria and why it was preferable to other SPM frameworks. In addition, the paper briefly addressed operationalization issues as a segue to the next phase of the research. The Conceptual Framework paper was completed and submitted to USAID in mid-September.

### A4. Rural and Agricultural Finance

#### *Rural Finance Donors Working Group Meeting*

Chemonics provided input to the development of the agenda for the one-day Rural Finance Donors Working Group Meeting. The Microenterprise Development Team and the Office of Agriculture at USAID hosted the meeting in Washington, D.C. on July 16 to achieve the following objectives:

- To bring together key donor stakeholders working in rural and agricultural finance (RAF);
- To share information on USAID activities on research and training in RAF and solicit donor input; and
- To explore collaborative donor efforts and seek opportunities for collaboration.

The ultimate goals of the meeting were to promote cooperation and collaboration among donors on RAF, help avoid duplication of efforts and keep members of the Donors' Working Group on Rural Finance well informed of USAID's ongoing work in this technical area. Attendees included a wide range of donor organizations involved in RAF. Chemonics produced minutes of the meeting, including a preliminary database of donor interventions in RAF that USAID subsequently distributed to the Rural Finance Donors Working Group for comment and additional input.

#### *Draft SOW for Mongolia Case Study and List of Other Potential Cases*

On August 3, Chemonics submitted a draft SOW for a case study to be conducted in Mongolia. On August 11, Chemonics submitted a list of potential case studies for USAID's consideration. The latter included cases that Chemonics and DAI indicated interest in conducting. Submission of these two documents prompted USAID to set a meeting to discuss both, which was set for August 31.

*RAF Research Planning Meetings*

Chemonics hosted a RAF research planning meeting at its Home Office on August 31, from to achieve the following objectives:

- To finalize initial case selection; and
- To discuss process for the cases, including formatting, templates, etc.

Participants discussed the proposed cases dealing primarily with agricultural credit, explored potential topics for technical notes, identified areas for further research and confirmed the selection of the first four cases to be conducted. In addition, the group agreed to conduct the research needed and meet again on September 9. Chemonics produced minutes of the meeting, including a revised matrix of potential cases for consideration.

DAI then hosted a RAF research planning meeting at its Home Office on September 9 to achieve the following objectives:

- To finalize case study selection and timing (after agreeing on at least two additional case studies); and
- To discuss process and format of deliverables

Participants discussed the remaining case study ideas, the format for proposing SOWs, the need to keep the database of donor interventions in RAF updated and the capability of DAI to take on that role. In addition, the group agreed to meet again on September 29 to discuss the series of technical notes and review the draft SOW to be produced for cases in Costa Rica and Moldova. DAI produced minutes of the meeting.

Chemonics hosted another RAF research planning meeting at its Home Office on September 29 to achieve the following objectives:

- To discuss and agree on what notes to produce, who would be responsible for each, and the timeline for their production as well as to develop a process and outline for production of the notes; and
- To review the draft SOWs for the case studies to be conducted in Costa Rica and Moldova.

Participants discussed all the proposed notes in the AMAP – BASIS series and determined the timeline for production as well as who would be responsible for each. Participants agreed that the process of note production should follow the technical instruction that had been drafted and distributed for comment prior to the meeting. Participants generally agreed with the basic structure for the Moldova case study, but discussion of the Costa Rica case was deferred based on the need for additional information. No subsequent meeting date was set. Chemonics produced minutes of the meeting, including a revised list of ideas for the technical note series.

*Outlook*

Chemonics plans to conduct the first case study in Moldova in November, 2004.

**A5. Microfinance in Conflict Areas**

Since the approval of a new Scope of Work in May 2004, our research has concentrated on microfinance with youth in conflict-affected areas. During the fourth quarter of 2004, the research team focused on completing Phase I of the SOW and initiating activities on Phase II. The major activities of this quarter were the following:

- Synthesized the discussions held during the three day virtual conference on Microfinance, Youth and Conflict, June 1-3, 2004 and posted it on the microLINKS website.
- Drafted and revised a MicroReport that summarizes the emerging lessons and issues on “Microfinance, Youth and Conflict”. The report is based on literature review and discussions held during the virtual conference. It also presents a framework for further research and programming needs on the issue.
- Developed and finalized questionnaires for surveys of microfinance and youth practitioners
- Prepared list of potential questionnaire recipients with input from both microfinance and youth experts
- Drafted Scopes of Work and coordinated plans for two case studies – Gaza/West Bank and Columbia.

#### *Phase I*

The MicroReport was submitted to USAID in August. The report has undergone several revisions to incorporate input from the USAID and the EQUIP3 team. The team anticipates finalizing the report in November, which will complete Phase I of the research on Microfinance, Youth and Conflict.

#### *Phase II*

This phase is proposed to run through March 2005 and involves conducting a survey of key microfinance and youth practitioners, two case studies, and a publication on *Key Issues and Broad Checklists for Targeting Conflict-affected Youth for Enterprise Development*.

#### *Questionnaires Developed and Potential Recipients Identified*

The research team developed a questionnaire aimed at understanding common concerns in working with youth on microfinance initiatives in conflict-affected areas. The team worked in collaboration with USAID and EQUIP3 to ensure that the appropriate questions were included from both the microfinance perspective and the youth perspective.

During September the team prepared a list of potential questionnaire recipients, based on their research, contacts, feedback from the virtual conference, and input from youth experts at EQUIP3. The recipients primarily include (1) microfinance practitioners serving youth in conflict-affected areas and (2) youth practitioners providing microfinance and/or non-financial services for youth in conflict-affected areas. The questionnaires will be sent to the recipients via email throughout the month of October. The team will prepare a comprehensive database to capture and analyze the responses from the surveys.

#### *Two Case Studies Designed*

Since an electronic survey may be limited in its ability to reach youth who are driven into conflict, two field visits will be carried out to verify findings and to better understand issues and the local context. The two case studies will involve conducting detailed surveys of microfinance and youth practitioners and organizing focus groups with youth.

The team prepared drafts of Scopes of Work for two case studies – Colombia and West Bank/Gaza. The draft SOWs will be finalized in October, once input from USAID and EQUIP3 can be incorporated. The Colombia case study is expected to be conducted in late November, and the West Bank/Gaza case study is planned for January 2005.

#### *Project Leveraging and Additional Activities*

- The team disseminated the summary of the virtual conference on Microfinance, Youth and Conflict to key experts and networks, such as the Development Finance Network.
- Geetha Nagarajan held a Brownbag at Chemonics on Microfinance with Youth.
- Tim Nourse prepared a more detailed (microPAPER) version of an earlier-submitted microNOTE titled [Refuge to Return: Operational Lessons for Serving Mobile Populations in Conflict-Affected Environments](#). This paper is a summary of ARC's R2R approach, which provides specific lessons for serving mobile populations, while underlining the importance of applying and adapting sound microfinance practices in post-conflict environments. This is now posted in the microLINKS webpage.
- Tim Nourse, along with Mary McVay, moderated a virtual conference on "BDS in conflict environments" for SEEP during Sep.6 – Oct.1. Geetha Nagarajan participated in the conference and posted comments.

### **A6. Implementation Grant Program (IGP) Lessons Learned**

The IGP Lessons Learned topic was launched in the fourth quarter. Chemonics submitted a SOW for 78 days of LOE on this topic, which was approved on August 9. This topic was extremely active this quarter, as the research team started preparations for the USAID IGP presentation at the SEEP Conference in October.

#### *Development of Research Framework*

Chemonics developed a draft conceptual framework and two matrices for collecting and inputting programmatic and financial performance data on IGP grantees. The matrices specified the types of program and financial data to be collected from the IGP database, defined parameters, and offered definitions and formulas. Chemonics further developed a list of preliminary research questions for the IGP assessment. These documents were vetted with USAID via email and telcons in August. In mid-August, a meeting was held with Chemonics, USAID and Weidemann to finalize the matrices and conceptual framework and research questions, and to discuss other aspects of the IGP research. The research framework was finalized at the end of August, and Chemonics proceeded to input data into the program and financial performance matrices. Substantial gaps in acquiring both of these types of information were identified during this process.

#### *Chemonics IGP Database*

Chemonics created an in-house, searchable database to store all of the relevant program and financial data on the IGP grantees, which was based on the research framework. To create this database, Chemonics obtained a copy of Weidemann's Access Database, in which the IGP data was being held. Chemonics worked closely with Weidemann to extract the necessary information for analyses. Because the source data was not usable in its original format due to the organization of the database, Chemonics staff had to initiate a large data-cleansing process to obtain a good dataset for the portfolio analysis. In addition to the Weidemann Database, Chemonics staff utilized various sources of information to fill in the data gaps, including hard copy progress

reports submitted to USAID, program descriptions and data from the Microfinance Information Exchange (MIX).

#### *IGP Program Summaries*

Chemonics agreed to update the IGP grant summaries document that was provided by USAID. Chemonics revised the document by adding the most recent grants and submitted to USAID for comments.

#### *Preparation for the SEEP Conference presentation*

Chemonics assisted USAID in preparing a PowerPoint presentation for the SEEP Annual General Meeting scheduled for the end of October. Chemonics provided information and feedback on selection of the PVO panel members to present along with USAID.

### **A7. Mergers and Acquisitions, Including Change Management**

This is a one-year topic that was planned for year 2, but has not yet been allocated funding.

### **A8. Hybrid Regulation and Supervision**

This is a one-year topic that was planned for year 2, but has not yet been allocated funding.

### **A9. MFI Support Institutions**

This is a one-year topic that is planned for year 3.

## **B. Component 2**

On September 30, MD office issued a Technical Instruction (TI) to Chemonics under Component 2 to assist MD in developing and presenting a one day Microfinance Training module to EGAT personnel as part of a four-day Financial Sector Training that will cover the Financial Sector, Microfinance, Rural and Agricultural Finance and Program Design to be held on October 19<sup>th</sup>. Work under this TI will be carried out during the first quarter of Project Year 2.

## **C. Component 3**

Under Component 3, Barry Lennon, the AMAP-KG CTO gave Chemonics approval to bill for activities related to Knowledge Management, i.e. formatting of deliverables and other activities related to posting information on AMAP activities to the microLINKS, and communication and collaboration with QED, the Knowledge Management Contractor. During the fourth quarter, Chemonics formatted several deliverables for posting to microLINKS for the Microfinance in Conflict, Transitions to Private Capital and Measuring Outreach topics.

Throughout the quarter, Chemonics actively supported donor coordination of RAF initiatives and promoted effective coordination among Chemonics, DAI and ACDI/VOCA. In mid-July, Chemonics provided feedback to ACDI/VOCA on development of their thematic paper on rural financial services offered by non-financial institutions.

Following the July 16 Rural Finance Donors Working Group meeting, Chemonics elicited input on RAF interventions from the Asian Development Bank and exchanged information with FAO concerning RAF case planning. The latter activity led to productive communication among donors, particularly between FAO and USAID, to prepare for the subsequent Rural Finance Donors Working Group meeting planned in conjunction with the SEEP 2004 Annual Meetings.

On September 30, Chemonics met with IRG to coordinate how to best make use of the microLINKS website and to plan site improvements. During the meeting, Chemonics provided the names and contact information for other AMAP-FS KG research directors at Chemonics so that they could learn more about how to more effectively use microLINKS and facilitated IRG's contact with the other AMAP-FS KG task order holders – DAI and IBM. In addition, Chemonics provided feedback to USAID and IRG on how microLINKS could become a more effective tool for USAID missions, consultants and microfinance practitioners.

#### **D. Task Order Management**

The Project Management Unit (PMU) was very active during the fourth quarter ensuring smooth administration of the Knowledge Generation task order. We developed and/or assisted subcontractors and research directors in developing SOWs and coordinated the USAID approval process for SOWs and TCNs. We also fielded a consultant to Brazil during this quarter to conduct research on the Legal and Regulatory Framework topic.

To address increasing project management and research activities, the PMU expanded during the third quarter. Ms. Anna Bantug, who was serving as the Project Administrator on AMAP KG as well as the Financial Services (FS) IQC, is now dedicated exclusively to AMAP Knowledge Generation. In addition, a new Assistant Project Administrator was hired - Ms. Selin McCurdy. Ms. McCurdy holds a Masters in international development from the London School of Economics and recently returned from working in Mexico.

### **III. BUDGET**

Expenditures for this quarter totaled \$206,015. Expenses to date have been related to five of the research topics: Rural and Agricultural Finance, Microfinance in Conflict Situations, Legal and Regulatory Framework, IGP Lessons Learned, Measuring Outreach, Transitions to Private Capital, as well as Task Order Management. See below three financial reports: one showing invoiced funds against obligated funds, a detailed financial report by Components and technical topics and a summary financial report with overall salary expenses, other direct costs and general and administrative expenses (G&A) for Y1, Q4 2004.

#### **Obligated Amount Report**

<b>Total Obligated Amount</b>	<b>Invoiced To Date</b>	<b>Obligation Remaining</b>	<b>% of Obligated Funds Invoiced</b>
<b>\$1,758,000</b>	<b>\$361,972</b>	<b>\$1,316,028</b>	<b>20.59%</b>